

British Columbia Securities Commission

2018/19 – 2020/21 SERVICE PLAN

February 2018



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Board Chair Accountability Statement



The 2018/19 - 2020/21 British Columbia Securities Commission (BCSC) Service Plan was prepared under my direction in accordance with the *Budget Transparency and Accountability Act*. The plan is consistent with Government's strategic priorities and fiscal plan. I am accountable for the contents of the plan, including what has been included in the plan and how it has been reported. I am responsible for the validity and reliability of the information included in the plan.

All significant assumptions, policy decisions, events and identified risks, as of January 11, 2018 have been considered in preparing the plan. The performance measures presented are consistent with the *Budget Transparency and Accountability Act*, the BCSC's mandate and goals, and focus on aspects critical to the organization's performance. The targets in this plan have been determined based on an assessment of the BCSC's operating environment, forecast conditions, risk assessment and past performance.

A handwritten signature in black ink, appearing to be 'B. Leong', written in a cursive style.

Brenda M. Leong
Board Chair

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Glossary

AMF	<i>l’Autorité des marchés financiers</i> , the Quebec securities regulator
ASC	Alberta Securities Commission
B.C.	British Columbia
BCSC	British Columbia Securities Commission
CDS	Clearing and Depository Services Inc.
CGI	CGI Information Systems and Management Consultants Inc.
CMRA	Capital Markets Regulatory Authority
CRM2	Customer Relationship Model, Phase 2 amendments to NI 31-103 <i>Registration Requirements, Exemptions and Ongoing Registrant Obligations</i>
CSA	Canadian Securities Administrators
CSE	Canadian Securities Exchange
G20	Group of 20 major global economies
ICO	Initial coin offering
IIROC	Investment Industry Regulatory Organization of Canada
MAP	Market Analysis Platform
MFDA	Mutual Fund Dealers Association
NI	National Instrument
NOH	Notice of Hearing
NRD	National Registration Database
OM	Offering memorandum
OSC	Ontario Securities Commission
RSBC	Revised Statutes of British Columbia
SEDAR	System for Electronic Document Analysis and Retrieval
SEDI	System for Electronic Disclosure by Insiders
TSX-V	TSX Venture Exchange

Strategic Direction and Alignment with Government Priorities

The British Columbia Securities Commission (BCSC or Commission) is the independent provincial government agency responsible for regulating capital markets in British Columbia. The BCSC’s enabling legislation is the *Securities Act*, RSBC 1996 c. 418. Our mission is to protect and promote the public interest by fostering:

- A securities market that is fair and warrants public confidence
- A dynamic and competitive securities industry that provides investment opportunities and access to capital

The Commission benefits the public by protecting investors and the integrity of B.C.’s capital markets. We:

- Review the disclosure that reporting issuers and businesses raising capital must provide to investors
- Review applications for registration from those that trade securities, provide advice, or manage portfolios or investment funds, to ensure they are qualified, ethical, and solvent
- Take action against those who contravene securities laws to deter misconduct and mitigate investor losses
- Educate investors to protect themselves and industry participants to understand how to comply with securities law requirements

The BCSC is aligned with the Government’s key priorities as set out in its [Mandate Letter](#), and as summarized in the chart below.

Government Priorities	BC Securities Commission Aligns with These Priorities By:
Making life more affordable	<ul style="list-style-type: none"> • Reviewing and modernizing regulations affecting reporting issuers
Delivering the services people count on	<ul style="list-style-type: none"> • Reducing securities fraud through detection, disruption, and deterrence • Implementing reforms to improve client-registrant relationships • Raising public awareness about investment fees
A strong, sustainable economy	<ul style="list-style-type: none"> • Regulating financial technologies to support innovation • Implementing a derivatives regime

Operating Environment

We work with other Canadian securities regulators under the Canadian Securities Administrators (CSA), an umbrella organization of Canada’s provincial and territorial securities regulators. We coordinate oversight of market participants within CSA. Regulating B.C.’s capital markets within a national and largely harmonized system significantly impacts how we approach existing and new securities regulations.

B.C.’s capital markets have seen healthy growth in the past six years, with a total of \$137B raised since 2011, more than 40% (\$61B) of it in the past two years alone.

The province continues to have a vibrant public venture capital market:

- B.C. is home to more than 1,000 venture issuers listed on the TSX Venture Exchange (TSX-V) and the Canadian Securities Exchange (CSE)
- Public venture market financing more than doubled in 2016 (\$2B) compared to 2015 (\$973M)
- Public venture companies raise most of their money through private placements, not public offerings
- Mining and other resource companies continue to dominate our public markets
- Mining companies are increasing exploration budgets on “green energy” materials, such as lithium for electric car batteries
- The market capitalization of technology companies on the TSX-V almost doubled over the five years ending 2016
- The market capitalization of public cannabis companies has risen dramatically, sparked by legalization in many U.S. states and future legalization in Canada

Public company capital raising and compliance costs are high, which affects our competitiveness as a global venture finance hub. We have led many initiatives to address these issues, including the venture issuer disclosure project, the existing security-holder exemption, the investment dealer exemption, and rights offering reform. These initiatives have reduced costs and increased financing opportunities without compromising investor protection.

B.C. is home to a vibrant and growing technology sector that is providing good jobs and investment opportunities for British Columbians. More than 100,000 tech employees make up almost 5% of B.C.’s workforce and earn a weekly salary that is 75% higher than the average wage in B.C.¹ Compared to our public resource companies, many of these promising companies appear to be having less difficulty accessing capital, as there is both foreign and local money looking to invest in B.C. tech. Some of these companies are choosing to go public, but many are staying private and either looking to sell their company privately or partner with larger companies.

Trends in B.C. tech present a different set of risks and challenges, particularly in the area of financial technology (fintech). Fintech is rapidly transforming many traditional financial activities, in areas such as wealth management, online lending, and regulatory compliance. These developments challenge the BCSC to keep pace with rapid innovation and the related investor protection risks and opportunities.

Perhaps the most obvious trend is the emergence of blockchain technologies, including capital raising through initial coin offerings (ICOs). Globally, fledgling businesses have raised hundreds of millions of dollars online through these mechanisms. BCSC staff are inundated with enquiries and filings in this area. For ICOs that are securities, the BCSC needs to work quickly to facilitate offerings that comply with the rules, and take swift compliance and enforcement action where they do not. We also educate the public about ICOs, highlighting their risks.

We also need to update regulatory technology. Canadian securities regulators currently receive most filings from public companies, insiders, and registrants through shared national systems that now

¹ The Province of British Columbia, Ministry of Technology, Innovation and Citizens’ Services. (2017). *B.C. tech sector now employing more than 100,000 people* [Press release].

range from 10 to 20 years old. In addition, the multiple marketplace environment has dramatically increased transaction volumes, presenting ever greater market data challenges. If we don't enhance our systems, market efficiency and investor protection will be compromised. At the same time, renewal will give us new tools to detect more misconduct and respond faster.

Another challenge is that the BCSC requires staff with specialized skills that are in demand from professional firms, the securities industry, and other government agencies. In a growing, diverse economy, the BCSC needs to attract and retain uniquely qualified staff.

Performance Plan

This section describes the BCSC's two strategic priorities—Goal 1: *Support fair, efficient, and innovative Canadian capital markets* and Goal 2: *Inspire investor confidence*. We align objectives and related strategies under each goal to demonstrate how the BCSC intends to work towards achieving these goals. We engage in regular, effective, two-way communications with Ministry of Finance staff on all issues that intersect with Government's priorities and that are key to delivering on our mandate.

Goal 1: Support fair, efficient, and innovative Canadian capital markets

Objective 1.1: Promote a culture of compliance

Investors are better protected if securities firms and companies operating in the capital markets understand and comply with their regulatory obligations. They must have effective systems and controls in place to ensure compliance with securities rules. We apply risk-based reviews and take appropriate action to correct non-compliance.

We register securities firms and their advisors and refuse applications from unsuitable candidates. We audit these securities firms routinely for compliance with the rules. We also oversee the conduct of the TSX-V, Clearing and Depository Services (CDS), Investment Industry Regulatory Organization of Canada (IIROC), and Mutual Fund Dealers Association (MFDA), all of which are recognized in B.C. This involves close and regular interaction with these entities, reviewing ongoing filings, proposed rule and fee changes, and conducting periodic oversight reviews.

The BCSC regulates companies and insiders and reviews filings that companies make when they go public or when they are already public. The prospectus, continuous disclosure documents, and mining technical disclosure are key disclosure documents used by companies to raise money from the public. We monitor these filings to detect cases where companies are not providing adequate disclosure. Investors are better able to make informed investment decisions when they have access to quality periodic and timely disclosure. In addition, we monitor two other types of market activity: daily trading of over-the-counter derivatives by companies that report trades to the BCSC, and the private placement of securities by businesses.

Key Strategies:

1. Implement a derivatives regime

We are working with other CSA jurisdictions to fulfill the G20 commitments made by Canada's Minister of Finance following the 2008 financial crisis. To date, we have adopted a number of rules necessary to implement a derivatives regime, including rules related to establishing derivatives subject to regulation, trade reporting, mandatory clearing, and the treatment of collateral for cleared derivatives.

In coordination with other CSA jurisdictions, we will continue to develop:

- Registration rules for derivatives dealers and advisors
- Market conduct requirements
- Market structure rules for derivatives trading facilities
- Margin and collateral requirements for uncleared derivatives

The BCSC will also recognize the relevant derivatives clearing agencies and finalize its approach to oversight of those clearing agencies.

2. Implement reforms to improve client-registrant relationships

We are working with other CSA jurisdictions on amendments to certain regulatory requirements that will enhance the obligations of registrants to their clients. In fiscal 2018/2019, we will publish amendments to NI 31-103 *Registration Requirements, Exemptions and Ongoing Registrant Obligations*. These will better align the interests of registrants with the interests of clients, clarify the client-registrant relationship for clients, and enhance various specific obligations that registrants owe to their clients.

The BCSC is also leading a CSA project to measure the impact that the Client Relationship Model, Phase 2 (CRM2) reforms, and point-of-sale pre-sale disclosure, have on investor knowledge, attitudes, and behaviours, distribution firm practices, and mutual fund fees and asset flows. This research will run through 2021.

3. Implement reforms to mutual fund fee structures

We are working with other CSA jurisdictions to implement reforms that better align the interests of investment fund managers and dealers/representatives with investors. Last year, the CSA issued a consultation paper to explore the potential impacts of discontinuing embedded commissions.

The CSA has identified these broad problems:

- Embedded commissions raise conflicts of interest that misalign the interests of investment fund managers and dealers/representatives and their clients
- Embedded commissions limit investor awareness, understanding, and control of dealer costs
- Embedded commissions do not align with the services investors receive

Last year, we reviewed the consultation paper comments and conducted further roundtable consultations. This year, we will continue to work with our CSA colleagues to propose solutions to these investor protection concerns.

4. Modernize the offering memorandum form

B.C. is co-leading a CSA project to modernize the disclosure required when issuers use the offering memorandum (OM) exemption to raise capital. Currently, issuers can use the OM exemption to raise money from any B.C. investor. B.C. pioneered this prospectus exemption to streamline small business capital raising. Complex businesses are now using this exemption, so we are revisiting the disclosure requirements. We began this work last year.

This year, we plan to work with our CSA colleagues to enhance the OM form so that it requires more information unique to an issuer’s industry. This will help investors make better investment decisions.

Performance Measures:

	Performance Measure(s)	2016/17 Actual	2017/18 Forecast	2018/19 Target	2019/20 Target	2020/21 Target
1.1a	Percentage of reviewed issuers that reduce deficiencies:					
	i. Improved disclosure subsequent to a continuous disclosure review	94% ^{1,2}	>95%	>95%	>95%	>95%
	ii. Improved disclosure to minimum standards	88% ^{1,2}	>95%	>95%	>95%	>95%
1.1b	Percentage of randomly sampled mining companies that comply with standards for technical disclosure in:					
	i. Filed disclosure (annual information forms, news releases, management discussion and analysis)	73% ^{1,3}	>73%	Improve on 17/18 actual	Improve on 18/19 actual	Improve on 19/20 actual
	ii. Issuer websites and other voluntary disclosure	64% ^{1,3}	69%	Increase average by 5% over 17/18	Increase average by 5% over 18/19	Increase average by 5% over 19/20
1.1c	Average number of deficiencies per examination in Capital Markets Regulation	6.58 ¹	6.25	Improve on 17/18 actual	Improve on 18/19 actual	Improve on 19/20 actual

¹ Data Source: BC Securities Commission, April 2017.

² Measures the compliance actions taken 12-24 months before reporting. Based on a sample of 17 issuers.

³ Based on a survey of 40 randomly selected B.C. mining companies.

Linking Performance Measures to Objectives:

1.1a When we promote a culture of compliance through our continuous disclosure reviews, public companies become more aware of disclosure requirements. This pair of measures shows the extent to which our detailed continuous disclosure reviews motivated non-compliant issuers to improve their disclosure.

- 1.1b When we promote a culture of compliance through our technical report reviews, mining firms adhere to the specialized disclosure requirements we have for the mining industry. This pair of measures shows the extent to which a sample of B.C.-based mining companies is compliant in specific areas of their technical disclosure.
- 1.1c When we promote a culture of compliance through our registered firm examinations, compliance officers at the registered firms we oversee know what we expect to find in a strong compliance system. This measure states the average number of deficiencies found in completed exams performed over the period, excluding firms subjected to audits for cause. The target is set to decrease average deficiencies as a sign of increased industry compliance.

Objective 1.2: Advance cost-effective regulation

Regulation imposes costs through compliance requirements and can stifle innovation. Investors inevitably pay these costs. We aim to provide strong investor protection and market integrity for an appropriate cost by focusing on three core areas:

- *Emphasizing practical solutions*—When the market cannot fix market problems, we emphasize practical solutions, looking at the full range of potential regulatory responses and advancing only those that will provide significant benefits that exceed the costs.
- *Using our resources efficiently*—We deploy our resources efficiently through risk management, teamwork, and relevant performance measures.
- *Delivering services reliably*—We deliver key regulatory services, on a timely basis, recognizing that delay adds to costs for market participants.

Key Strategies:

5. CSA systems redesign

The BCSC is one of four CSA partners responsible for operating national filing systems, which are critical to both our regulatory system and market participants. We are closely involved with the CSA in a multi-year system redesign project to replace various applications including our public company filing, insider reporting, and registration systems. The CSA redesign will modernize filing processes for market participants and establish a platform for improved oversight analysis.

6. Regulate financial technologies to support innovation

The BCSC has a long history of innovative rule-making, flexibility in our consideration of exemption applications, and early adoption of new technology. We apply this approach in regulating all industries, not just technology industries. However, the emergence of innovations applied to core financial markets services will challenge us to keep pace and consider appropriate regulations without stifling innovation or adversely affecting investor protection.

As market participants are introducing innovative technologies to improve customer service delivery, launch new business models, or facilitate capital raising from retail investors, we want to make sure regulation is a fit for the new environment. This means understanding how these technologies change business practices, ensuring that our regulatory structure manages new risks and opportunities, and keeping in mind how outdated regulatory controls may slow technology growth.

The BCSC Tech Team will continue to interact with B.C. businesses in this sector to understand how they are targeting their technology to financial services, how they raise capital to fund their firm development, and how new innovations may require us to re-examine specific securities regulation. We will provide early support to the B.C. Fintech sector to assist them in navigating securities regulations. We will also take appropriate compliance or enforcement action against entities that disregard securities rules.

7. Review and modernize regulations affecting reporting issuers

In fiscal 2017/2018 we worked with the CSA to explore options that could reduce regulatory burden on public issuers. We consulted with issuers and other stakeholders to identify specific areas of securities regulation that may impose regulatory burden that may be disproportionate to purported regulatory objectives. In fiscal 2018/2019 we will draft amendments designed to implement changes in priority areas. We will also co-lead research into public capital raising alternatives to the prospectus offering regime, with *l'Autorité des marchés financiers* (AMF).

We are also co-leading a CSA project to study the current resale regime for prospectus-exempt securities under National Instrument 45-102 *Resale of Securities* to determine the extent to which the resale provisions continue to be relevant in today's markets and to assess the impact of alternative regulatory approaches. During fiscal 2017/2018 we:

- Conducted consultations with stakeholders to assess whether the current securities resale regime remains relevant
- Researched alternative approaches in other jurisdictions, particularly the United States, United Kingdom, and Australia
- Reviewed the problems Canadian investors, particularly institutional investors, have identified with the resale rules for foreign-issuer securities
- Proposed amendments to increase opportunities for Canadian investors to resell securities of foreign issuers in markets outside Canada, considered the comments submitted on those proposals, and recommended amendments for final adoption

In fiscal 2018/2019 we will:

- Finalize and adopt amendments to the resale regime for foreign-issuer securities
- Complete research on the potential impact of reducing or eliminating seasoning and restricted hold periods, including on investor behaviour, prospectus use by venture and non-venture issuers, and underwriting activities by registered dealers
- Draft and publish a consultation paper, if warranted
- Recommend a modern resale regime for consideration by the CSA

8. Support work to build the Capital Markets Regulatory Authority (CMRA)

We will continue to work with Government to transition seamlessly to the CMRA, assisting with the legislative framework and the transition and integration work necessary to establish it. We will also work with local market participants to ensure they will be able to access the services they do today.

Performance Measures:

Performance Measure(s)	2016/17 Actual	2017/18 Forecast	2018/19 Target	2019/20 Target	2020/21 Target
1.2a Average score on cost-effective regulation scorecard	94% ^{1,2}	>90%	>90%	>90%	>90%
1.2b Average approved project post-implementation score	100% ¹	>80%	>80%	>80%	>80%

¹ Data Source: Internal evaluations, April 2017.

² We scored 11 policy projects, of which one was a B.C.-only initiative.

Linking Performance Measures to Objectives:

- 1.2a To advance cost-effective regulation, we need to proceed with policy projects by clearly defining problems that securities law can address and tailoring cost-effective solutions to these problems. We use a scorecard to track 16 important steps and outcomes in responding to market problems in a way that results in cost-effective regulation. We apply the scorecard to all CSA and local policy projects. We report the average score of all projects completed each year, except those we adopt purely to harmonize with other jurisdictions.
- 1.2b Part of cost-effective regulation is ensuring that investments we make in new projects meet their objectives within time and cost expectations. We assess each completed regulatory operations project by evaluating benefits achieved against the business case and score the project’s success relative to its proposed benefits. A “project” is an initiative that takes more than 20 person days or costs more than \$25,000.

Goal 2: Inspire investor confidence

Objective 2.1: Act decisively against misconduct

Our Enforcement division focuses on cases with a strong B.C. connection. These include:

- Illegal distributions and fraud
- Market misconduct, including market manipulation and insider trading
- Compliance cases, including non-compliance by dealers and issuers
- Criminal cases related to securities transactions

Pursuing illegal distributions and fraud through both administrative and criminal enforcement is a critical component of protecting investors. Our objectives are to deter this misconduct and to mitigate investor losses through early disruption and timely enforcement. To this end, we:

- Conduct investigations, leading to settlements or administrative hearings before the Commission
- Identify and freeze cash and other assets to preserve property for distribution to victims
- Vigorously pursue collection of financial sanctions
- Issue temporary orders to stop misconduct immediately
- Use traditional and social media to issue investor alerts about suspected frauds in progress
- Educate investors about the warning signs of investment fraud so that fewer of them fall victim to fraudulent activity, and encourage early reporting of suspicious activity

- Pursue criminal investigations and refer appropriate cases to Crown Counsel for prosecution

Key Strategies:

9. Reduce securities fraud through detection, disruption, and deterrence

Securities fraud causes significant harm to B.C. investors and loss of confidence in our capital markets. Securities fraudsters thrive in secrecy and can be difficult to detect. We use an integrated approach to create an environment that discourages fraudulent securities activities. Components of the approach include enhanced intelligence gathering, early intervention tactics to disrupt fraudulent activity, and a visible and robust collections process. We will continue to develop and refine these integrated components to create stronger deterrence against investment fraud and to protect investors.

Criminal investigation is another component of our integrated approach. Criminal sanctions are one of the most effective deterrents for fraud, and serious securities frauds warrant consideration for criminal investigation. We will develop our capacity to bring forward more cases for criminal prosecution, with the goal of getting criminal sanctions that deter misconduct and engender confidence in our ability to protect the public and our capital markets.

10. Improve market analytics capability for enforcement investigations

Our enforcement trading unit routinely uses market data and corresponding broker data to investigate market manipulations and insider trading. The current system was developed before our multiple marketplace environment and requires considerable manual preparation of data. We are working with other CSA jurisdictions to build a data repository and data analytics system to support more efficient enforcement work on trading abuse. In fiscal 2017/2018, the CSA awarded a third-party contract to build this system, called Market Analysis Platform (MAP). This year, we will create the equity data warehouse and will work toward the launch of priority enforcement tools for trade matching and trading data exploration for enforcement.

Performance Measures:

Performance Measure(s)		2016/17 Actual	2017/18 Forecast	2018/19 Target	2019/20 Target	2020/21 Target
2.1a	Actions taken to disrupt misconduct					
	i. Number of actions	86 ¹	94	Increase 10% over 17/18	Increase 10% over 18/19	Increase 10% over 19/20
	ii. Average duration of complaint to action (days)	66 ¹	60	Decrease average by 10% over 17/18	Decrease average by 10% over 18/19	Decrease average by 10% over 19/20
2.1b	Average life of cases either from complaint to a Notice of Hearing (NOH) or from complaint to settlement before an NOH is issued (months) ²	31.9 ¹	30.41 ²	Set according to review	Set according to review	Set according to review

¹ Data Source: BC Securities Commission, April 2017.

² We base the 2017/18 target on our current portfolio of cases, and on the likelihood that an NOH or settlement agreement will be issued within the next 12 months.

Linking Performance Measures to Objectives:

- 2.1a Part of acting decisively against misconduct is to take early action to stop the misconduct. We can significantly reduce the harm to the public when we can identify and act quickly to disrupt misconduct. We aim to stop investment schemes before they start and prevent further participation in existing schemes. Disruptive action provides a visible, valuable benefit to the public. This measure tracks the number of disruptive actions taken by staff.
- 2.1b This measure is an indicator of timely enforcement and measures the average duration of administrative enforcement cases. Timely and thorough investigations provide the public with confidence in the actions we take to address misconduct. For cases open during the fiscal year, we measure the average case duration from start to issuing the Notice of Hearing (NOH) or, absent an NOH, the settlement. Because of the relatively small number of cases we process each year (15-20), a small number of outliers can significantly affect our targets. We set our target each year using information from our current caseload, including actual case age and service target timeframes for the enforcement steps outstanding on each case.

Objective 2.2: Educate investors

We want B.C. investors to have the knowledge, attitudes, and behaviours they need to protect their financial interests and secure their financial futures. Through public awareness advertising, we empower investors to engage actively in their relationships with their investment advisors and understand the fees they pay and the impact of those fees on their investment returns. Using social media and other channels for investor education, we help investors understand novel investment types, such as ICOs, so they will know how to conduct adequate due diligence. We raise awareness about how to recognize, reject, and report investment fraud by reaching out to B.C. investors through regular social media posts and a concentrated fraud campaign during Fraud Prevention Month in March.

Key Strategies:

11. Raise public awareness about investment fees

In fiscal 2016/2017 we launched both a three-year public awareness campaign and a three-year research project to support our investor education insights and activities under CRM2. As investment firms now provide their clients with more transparent information about the fees they pay, we are creating public awareness advertising to direct the attention of B.C. investors to their investment fees. The research supports this work by tracking investor readiness for, and use of, this information and identifying barriers that keep investors from taking steps to secure better investment outcomes for themselves.

In fiscal 2017/2018 we:

- Refreshed advertising launched in year one of this strategy, which asked investors to “Take a Look” at their investment fees. TV, digital, and social media advertising presented B.C. investors with novel educational tools, including an investment fees video and an improved fee comparison calculator. These tools help investors better understand the fees they pay and the impact of fees on investment returns over time.

- Conducted both quantitative and qualitative research to support the campaign. This included a study of individual investors over time to determine investor readiness for the information now available to them under CRM2 and focus groups, to understand the emotional barriers that prevent investors from looking at their fees, and taking steps to achieve better investment outcomes.

In fiscal 2018/2019 we will continue raising awareness of investment fees using our research-based multi-media advertising campaign. We plan to create new advertisements and apply research insights to the development of new investor education tools. The success of this work will be tracked through annual advertising impact research.

Performance Measures:

	Performance Measure(s)	2016/17 Actual	2017/18 Forecast	2018/19 Target	2019/20 Target	2020/21 Target
2.2a	Percentage of B.C. investors who strongly agree they have a good understanding of how fees impact the returns on their investments	21% ¹	26%	Increase 5% over 17/18	Increase 5% over 18/19	Increase 5% over 19/20
2.2b	NEW: Number of video views of <i>Investment Fraud Explained</i> seminar video	1,383 ²	2,630 ³	Increase 5% over 17/18	Increase 5% over 18/19	Increase 5% over 19/20
2.2c	Percentage of B.C. public aware of BCSC	33% ^{4,5}	>45%	>45%	>45%	>45%

¹ Data Source: Online investor survey.

² Data Source: BCSC InvestRight YouTube channel.

³ Forecast based on 2,149 for Q1-Q3.

⁴ Data Source: Online consumer survey.

⁵ While the general population showed 33% awareness, awareness was 49% among those who recalled seeing at least one BCSC InvestRight advertisement in the previous six months.

Linking Performance Measures to Objectives:

- 2.2a We communicate with B.C. investors through public awareness advertising campaigns. Our goal is to raise awareness among B.C. investors working with registrants about the investment fees they pay and the impact of those fees on their investment returns. We want investors to receive the benefits of CRM2 by paying attention to their fees and to make fees and returns part of their ongoing communication with their advisors. This measure comes from an online survey of investors age 18 and over.
- 2.2b This is a new measure, replacing one that surveyed in-person workshop participants. As noted in previous Service Plans, survey responses for our in-person seminars have dropped steadily in recent years, due to a change in survey methodology from telephone to online, as well as to reduced seminar attendance. This resulted in a survey sample size too small to be relied upon as a Service Plan measure. The new measure reflects our current practice of offering seminars primarily online, which ensures broader distribution to a wider audience and makes video views a more appropriate measure.

2.2c Low public awareness of the BCSC is a significant challenge when it comes to delivering investor education to the B.C. public. Our ability to increase awareness of our agency is directly linked to the number of people we can reach with the budget we allocate to our public awareness campaigns. The measure states aided awareness of the BCSC among the B.C. general population 18 and over and is ambitious in view of available resources.

Financial Plan

Summary Financial Outlook

	2016/17	2017/18	2018/19	2019/20	2020/21
(millions)	Actual	Forecast	Budget	Projection	Projection
Revenue					
Local filing fees					
Prospectus and other distributions	\$ 23.9	\$ 23.3	\$ 23.8	\$ 22.9	\$ 22.9
Registration	11.9	12.0	12.2	12.2	12.2
Financial filings	4.6	4.0	4.5	5.0	5.0
Other fees	0.2	0.2	0.2	0.2	0.2
	<u>\$ 40.6</u>	<u>\$ 39.5</u>	<u>\$ 40.7</u>	<u>\$ 40.3</u>	<u>\$ 40.3</u>
Other revenue					
CSA partnership user fees	6.3	6.3	6.3	6.3	6.3
Enforcement sanctions	1.0	0.3	0.5	0.5	0.5
Investment income	1.0	0.6	0.7	0.7	0.7
Total revenue	<u>\$ 48.9</u>	<u>\$ 46.7</u>	<u>\$ 48.2</u>	<u>\$ 47.8</u>	<u>\$ 47.8</u>
Expense					
Salaries and benefits	\$ 30.7	\$ 31.0	\$ 31.3	\$ 32.5	\$ 32.5
Other expenses	12.0	13.3	13.0	12.9	12.9
CSA partnership	3.9	5.7	4.3	6.8	6.8
Total expenses	<u>\$ 46.6</u>	<u>\$ 50.0</u>	<u>\$ 48.6</u>	<u>\$ 52.2</u>	<u>\$ 52.2</u>
Surplus (deficit)	<u>\$ 2.3</u>	<u>\$ (3.3)</u>	<u>\$ (0.4)</u>	<u>\$ (4.4)</u>	<u>\$ (4.4)</u>
Supplementary Information					
Total liabilities	\$ 13.2	\$ 13.2	\$ 13.2	\$ 13.2	\$ 13.2
Unrestricted operating surplus	24.7	20.4	17.5	13.1	8.7
Restricted operating surplus	37.9	38.9	41.4	41.4	41.4
Local capital expenditures	1.1	1.0	3.0	2.0	2.0
CSA partnership capital expenditures	3.3	2.0	7.9	7.9	7.9

Breakdown of Other Local Expenses

	2016/17	2017/18	2018/19	2019/20	2020/21
(millions)	Actual	Forecast	Budget	Projection	Projection
Occupancy	\$ 3.2	\$ 3.4	\$ 3.4	\$ 3.4	\$ 3.4
Depreciation	3.0	2.5	2.3	2.1	2.1
Professional Services	1.8	2.5	2.4	2.5	2.5
Information management	1.8	1.9	2.1	2.2	2.2
Education	0.7	1.1	0.8	0.8	0.8
Administration	0.6	0.6	0.7	0.7	0.7
Staff training	0.3	0.4	0.5	0.5	0.5
Business travel	0.3	0.5	0.4	0.4	0.4
External communications	0.1	0.2	0.2	0.2	0.2
Telecommunications	0.2	0.2	0.2	0.2	0.2
Other operating expenses	\$ 12.0	\$ 13.3	\$ 13.0	\$ 12.9	\$ 12.9

Key Assumptions and Risks

Key Assumptions

Key assumptions for the 2017/18 forecast are:

- Fee revenue exceeds budget due to higher revenue from exempt distribution report fees and prospectus fees, partially offset by decreased fees from financial filings

Key assumptions for the 2018/19 budget are:

- Modest increase in fee revenue compared to 2017/18
- Sanction receipts will be consistent with historical experience. Actual receipts will depend on the nature and timing of cases resolved during the year
- There will be no growth in CSA partnership revenues and a \$1.4M decrease in partnership expenses due to lower 2018/19 costs related to implementing new systems
- Investment income will be consistent with 2017/18; we expect interest rates to remain low
- The average number of staff will not change significantly
- The position vacancy rate will be 5%, and merit-based salary increases will average 2%
- Local capital expenditures will be \$3.0M to upgrade internal systems and for information management tools to respond to challenges presented by fintech, other technology innovations, and cyber security risk

Key assumptions for the 2019/20 projection are:

- Distribution revenue will decrease 4% due to lower fees from mutual fund and exempt distribution filings, partially offset by increased financial filings revenues due to the timing of filings
- There will be no growth in CSA partnership revenues and a \$2.5M increase in partnership expenses due to higher costs related to implementing and depreciating new systems

- Investment income will be consistent with 2018/19; we expect interest rates to remain low
- The average number of staff will increase by 2%, principally to increase criminal enforcement capacity and to address fintech, cyber security, and other technology innovations
- The position vacancy rate will be 5%, and merit-based salary increases will average 2%
- Local capital expenditures will be \$2.0M to maintain and upgrade internal systems and information management tools

Key assumptions for the 2020/21 projection are:

- Revenue, expenses, and capital expenditures will be consistent with those in 2019/20

Risks

The national filing system partnership (CSA partnership) contracts with CGI Information Systems and Management Consultants Inc. (CGI) to operate several national electronic filing systems through which we collect most of our fee revenue. CGI maintains comprehensive business continuity plans for these systems.

We rely on the CSA partnership projections to estimate our net contribution from the national systems operations. Actual results will differ.

We forecast a \$3.3M deficit for 2017/18, budget a deficit of \$0.4M for 2018/19 and project deficits of \$4.4M for each of 2019/20 and 2020/21. BCSC's financial position will deteriorate, due to low revenue growth coupled with higher spending to strengthen criminal enforcement capacity and address fintech, cyber security, and other technological innovations.

Overview of Operations and Management's Perspective

The BCSC does not receive taxpayer funding. Most of our revenue comes from local filing, registration, and application fees paid by market participants under the *Securities Act*. A small portion of our revenue is investment income and enforcement sanctions. Compensation, occupancy, and asset depreciation expenses account for about 85% of local expenses.

In addition to our local operations, in accordance with Canadian public sector accounting standards, we proportionately consolidate twenty-five percent of the assets, liabilities, net assets, revenues and expenses of the CSA partnership. CGI operates the SEDAR, SEDI, and NRD national electronic filing systems on behalf of a government partnership between the BCSC, Ontario Securities Commission (OSC), AMF, and Alberta Securities Commission (ASC).

We expect CSA partnership operating costs to fluctuate as CSA implements expected new systems. In 2018/19 we budget operating expenses of \$4.3M compared to revenues from CSA partnership user fees, interest, and other partnership revenue of \$6.7M.

The participants in the CSA partnership have agreed to restrict the use of national system surplus funds to benefit only national filing system users, through system enhancements or usage fee adjustments.

Capital markets activity can be volatile, so we hold accumulated reserves to fund operations through market downturns.

We prepare an annual budget for approval by the Board, monthly budget variance reporting to management, and request Board approval of significant expense variances.

Appendix A: Hyperlinks to Additional Information

Corporate Governance

- [BCSC's governance policy, and the role of the Board of Directors and of each Board Committee](#)
- [Membership list of the Board of Directors](#)
- [Membership list of each Board Committee](#)
- [Names and job titles of senior management](#)
- [Key accountability relationships with Ministers, ministries, and any other significant reporting relationships](#)
- Per Appendix 1 of B.C.'s "[Governance and Disclosure Guidelines for Governing Boards of B.C. Public Sector Organizations](#)": These guidelines do not apply to the BCSC.

Organizational Overview

- [Enabling statute](#)
- [Mandate provided in enabling statute, vision, values, and overall benefit](#)
- [BCSC's business areas](#)
- [BCSC stakeholders and partners](#)
- [Location of BCSC operations](#)